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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

25 March 1982

NOTE FOR THE DIRECTOR

THROUGH: Harry Rowen

SUBJECT: The US is concentrating on minor trade problems with Japan while overlooking major ones

Commerce, STR and State are badgering the Japanese to reduce citrus and beef quotas. In my view this approach to trade friction with Japan not only adopts a piecemeal approach to relatively minor aspects of the trade problem, but also overlooks the far more serious problems of Japanese refusal to internationalize the yen and reduce protection in the service sector. Yet even partial resolution of yen and services problems will have a far greater long term impact on the trade balance and address far more blatant examples of unfair practices than is the case with agricultural quotas. If you agree with this general proposition, we can furnish you with analytical material for use at the policy level.

Your recent exchange of letters with Lionel Olmer describes DDI research scheduled for June completion on whether, how and to what purpose the yen is undervalued. This attacks the problem of Japanese refusal to internationalize the yen. Japanese protection in the service sector, though more difficult to analyze, is at least as important in denying us the fruits of the comparative advantages that we enjoy in banking, insurance, brokerage, information processing, consultancy and similar services. Therefore, I hope to organize analytical work on the service sector with the objective of completing this research in June too.

My concern over our excessive focus on citrus and beef quotas also has a political dimension of no little consequence. The Japanese rightly claim that EC agricultural quotas are more restrictive than Japan's. They also point out that the US protects sugar, peanut and tomato growers as well as beef and dairy products. Although the LDP probably can weather the storm brewing in the Japanese press over allegations of US unfairness on agriculture, the same storm could damage Suzuki's prospects and contribute to worsening of our most important bilateral relationship in the Pacific. Selling more citrus and beef is not worth that price; opening up their capital markets and services sector is.

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The views expressed above are not entirely my own. I have been influenced by conversations with [redacted] 25X1

[redacted] Would you like to discuss Japan with any of the above if they visit Washington? 25X1

Dave

David D. Gries

cc: DDCI 25X1
SA/DCI

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